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January 11, 1994

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FCC MAIL ROOM

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, DC 20554

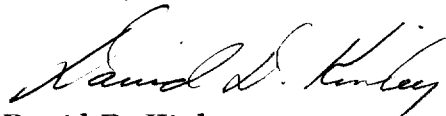
Ref: MM Docket Nos. 92-266, 93-215

Dear Mr. Caton:

On January 5, 1994, Paul Growald, Robert Weisberg and I met with Merrill Spiegel, Maureen O'Connell, Jim Coltharp, Lisa Smith and Bill Johnson regarding proposals made by the Small Cable Business Association in its previously-filed comments in the above rulemakings. Our discussions included presentation of the attached information regarding operating costs in low density cable television systems.

Please direct any inquiry concerning this matter to the undersigned.

Sincerely,


David D. Kinley
President

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MOUNTAIN CABLEVISION

3341 Los Padres • P.O. Box 2169
Frazier Park, CA 93225
(805) 245-3946

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FCC PRESENTATION

Re: Small Cable Operator

Robert Weisberg
President
Mountain Cablevision

January 5, 1994

Profile of Mountain Cablevision in Frazier Park, CA

2,800 total subscribers. (Two head ends @900 and @1900)

26 homes per mile.

Four employees.

35 channels.

Local origination channel for public announcements.

No Pay Per View — system is too small.

Insignificant advertising revenue — system is too small.*

Construction:

1992 — 12 miles of fiber optic plant were built as part of a plan to upgrade signal quality, add additional channels, and expand system.

1993/1994 — Forced to cancel plans for an additional 15 miles of fiber optic plant which would have included a local "Internet" and provided a two way link to the new High School. (The rules do not allow for the recapture of construction costs, and small systems do not have ancillary income from local advertising and Pay Per View to make up for this gap in the rules.)

Value of canceled construction is \$225,000. Also had to cancel planned employment of an additional full time technician.

*See attached Pro-forma

PRO FORMA

Local Advertising Sales in Typical 5,000 Subscriber Market

Income

Annual

National average gross revenue per subscriber @ \$16.20 (Kagan Reports)	\$81,000
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Expenses

Account Executive/Salesman	24,000
Producer, commercials/technician	20,000
Traffic, typist, billing	20,000
Benefits (20%)	12,800
T&E (salesman)	2,400
Dues and subscriptions (Chamber, CAB...)	1,500
Franchise fee (5% of gross revenue)	4,050
Bad debt expense (3%)	2,430
Tape costs	2,000
Dubbing	3,000
Telephone	2,000
Office supplies	600
Shipping	600
Rental	4,800
Electricity, water	2,400
Depreciation (5-year straight line. Insertion equipment - \$30,000)	6,000
Repair and maintenance	2,400
Insurance	1,200

\$112,180

Profit/Loss (\$31,180)

What is a Small Cable Operator?

A "small" cable system has not yet been adequately defined. "Small" is a relative term as can be seen by the following examples:

- a) SBA definition of a small business: Annual gross of \$7,500,000.
(Approximately 21,000 cable subscribers.)
- b) USTA definition of a small telephone company: 50,000 lines —
annual gross of about \$31,200,000. (86,666 cable subs.)
- c) A cable system that has less than 40 homes per mile?
- d) A cable system that employs less than ten people?
- e) A cable system that pays on average 35% more for programming
than other systems?
- f) A cable system where the local newspaper headlines a story about
a driver veering off the road to avoid a rabbit?

SMALL CABLE OPERATORS AND THE "BENCHMARKS"

1. Density is to cable as location is to real estate. Density is the key factor in determining the success of a cable system. It affects construction costs, truck costs, manpower costs, utility costs, etc. Yet this vital factor was not considered when the Benchmarks were established. Thus, small cable systems, with low density, were penalized. Following is a comparison of two systems in Southern California only 25 miles apart from each other:

System A:	Frazier Park
	26 homes per mile
	79% penetration = 20 subscribers per mile
	Total subscribers - 2,800
	Cost of construction - \$12,000 per mile
	Construction cost per subscriber - \$600
System B:	Valencia and Sunland
	165 homes per mile
	65% penetration = 107 subscribers per mile
	Total subscribers - 150,000
	Cost of construction - \$14,000 per mile
	Construction cost per subscriber - \$130

System A must charge more per month per subscriber in order to recapture construction costs. This is true whether or not **System A** is owned by an Independent or a large MSO. The deciding factor is "density."

2. "Competitive" markets that were used to determine the benchmarks were competitive for a relatively short time. Two competitive systems that were originally used in the Database calculations have already gone out of business because their rates were artificially low. Yet existing systems are being asked to follow these very same artificially low benchmarks.

Small Cable Operators and the Benchmarks (continued)

3. The FCC Rate Database covers so few homes in rural areas (under 40 homes per mile) where competition exists, that the Database is statistically insufficient to determine Benchmark Rates for systems with density of under 40 homes per mile. Only 65/100 of 1% of the homes in the Database are in areas of less than 40 homes per mile where type B or C competition exists. Therefore, the FCC Rate Database and the Benchmark Rates derived from this Database should not apply to rural systems. (For a full exposition of the statistical inadequacy see filing by Televista Communications in MM Docket No. 92-266, July 29, 1993.)

4. The disparity in programming costs were not taken into account when the Benchmarks were created. Programming costs for small cable systems are thirty to forty percent higher than that of large systems. Volume discounts are rampant and out of control — this is particularly true for large vertically integrated MSO's that control programming.

Rate cards for Discovery, The Nashville Network, C-SPAN, and Home Box Office indicate the depth of the problem. Bear in mind that the rate card is only the starting point for negotiations by large MSO's whereas a small cable operator has no leverage and always pays rate card. For example:

	10,000 subs	1,000,000 subs
The Nashville Network	30¢	19.5¢
The Discovery Channel	21.6¢	14.5¢
C-SPAN	4¢	2.5¢
Home Box Office	\$6.29	\$5.03

Small Cable Operators and the Benchmarks (continued)

5. Other operating costs are out of proportion for the small vs. large cable systems:

Per Subscriber Operating Expenses

	<u>Small Cable</u> <u>System*</u>	<u>Large Cable</u> <u>System**</u>
Accounting	Higher!	Lower
Advertising	Lower	Higher!
Bookkeeping	Equal	Equal
Cleaning	Higher!	Lower
Computer expenses	Higher!	Lower
Conventions	Higher!	Lower
Dues & subscriptions	Higher!	Lower
Electricity	Higher!	Lower
Franchise fees	Equal	Equal
Insurance	Higher!	Lower
Bank interest	Higher!	Lower
Legal	Higher!	Lower
Office expenses	Higher!	Lower
Pole line attachments	Higher!	Lower
Programming costs	Higher!	Lower
Repairs & maintenance	Higher!	Lower
Telephone	Equal	Equal
Truck expenses	Higher!	Lower
Technicians	Higher!	Lower
Management	Higher!	Lower
Secretarial	Lower	Higher!
Building		
Rent	Lower	Higher!
If constructed by cable		
operator	Equal	Equal

*Based on actual costs in Frazier Park, CA.

**Based on actual costs in Valencia and Sunland, CA.

Technical Staff

	<u>Small Cable System*</u>	<u>Large Cable System**</u>
Homes per mile	26	165
Technicians required per 4,000 subscribers	2***	1
Installers required per 4,000 subscribers	2***	1
Technician annual salary	\$30,000	\$35,000
Installer salary	22,000	26,000
Total annual technical costs per 4,000 subs	\$104,000	\$61,000
Monthly technical costs per 4,000 subs	\$2.10	\$1.03

*Based on actual costs in Frazier Park, CA.

**Based on actual costs in Valencia and Sunland, CA.

***Due to lengthy drive time in low density system.

Trucks

	<u>Small Cable System*</u>	<u>Large Cable System**</u>
Homes per mile	26	165
Gasoline—cost per gallon	\$1.39	\$1.11
Distance between homes	260 feet	44 feet
Replace brakes	Every 6 months	Every 4 years
Replace clutch	Every 18 months	Every 4 years
Replace tires	Every 18 months	Every 4 years
Cost of bucket truck	\$55,000	\$49,000
Average monthly cost of truck operation	96¢ per subscriber	20¢ per sub

*Based on actual costs in Frazier Park, CA.

**Based on actual costs in Valencia and Sunland, CA.

The "Lost" Two Years

Small cable operators have lost two important years of growth — 1993 and 1994.

We have been unable to make improvements in our plant, add channel capacity, construct new plant, borrow funds, improve service and do those things necessary to prepare for DBS, MMDS, and other potential competition. Momentum is difficult to recapture:

Actual additional costs spent by Mountain Cablevision due to the new rules:

Legal: 1992 — \$400
 1993 — \$8,000

Accounting: 1992 — \$2,000
 1993 — \$4,500

Staff time: 1993 — estimated \$20,000 in allocated time

Advertising: 1993 — \$2,000

Retransmission consent: 1993 and future years — \$20,000

Extra mailings: 1993 — \$4,500

Total additional costs represent 7% of annual gross!

Summary

We urge the following:

1. Permit small cable operators to increase rates now to the benchmark cap.

By allowing operators presently charging rates below the cap to increase rates to the cap, these systems will retain some flexibility needed to at least cover the operating and programming costs that have risen by 11.5% during the past seven months. (ICN study November 1993.)

2. Commence a rulemaking addressing small system regulatory concerns. The

Commission could comprehensively examine, in a separate proceeding, the impact of its regulations on small operators. This rulemaking could identify regulations which, when applied to small operators, are presumptively more harmful than beneficial.

Alternatives to Benchmark regulations for small systems could be discussed.

3. Allow small operators to pass-through rebuild and expansion costs! Small

operators are generally located in rural areas. Congress and the FCC have long advocated special regulatory treatment to make state-of-the-art communications technology available to rural areas. Permitting small operators to pass-through rebuild costs will increase the chances that rural subscribers promptly gain the benefits of such technology and be participants in Universal Service.

MOUNTAIN CABLEVISION

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Robert Weisberg

Mr. Weisberg is President and owner of Mountain Cablevision, a 2,800 subscriber cable system in Frazier Park, CA.

Mr. Weisberg has been active in the cable industry since 1968 when he formed TPS, a company that created and packaged entertainment programming for cable operators. In 1972 he was the programming consultant for Home Box Office which launched in November of that year.

In 1979 he joined Cablevision Systems, Inc. where he created and became General Manager of the Bravo network. Later he helped launch AMC and The Nostalgia Network.

Since 1988 he has devoted full time to the development and growth of Mountain Cablevision which has grown from 850 to 2,800 subscribers. The system has 35 channels including one Community Channel for local programming (the system is too small for profitable local advertising). Twelve miles of fiber optic were installed in 1992 and thirty additional miles are planned.

Mr. Weisberg is on the Board of Directors of SBCA (Small Business Cable Association).